MOD PRODUCERS 88 URB/REV. PAID UP LEASE (Thornbr
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Tract	No.	

#### NO SURFACE USE WITH POOLING PROVISION

NOTICE OF CONFIDENTIALITY RIGHTS: IF YOU ARE A NATURAL PERSON, YOU MAY REMOVE OR STRIKE ANY OF THE FOLLOWING INFORMATION FROM THIS INSTRUMENT BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER'S LICENSE NUMBER.

SUBSURFACE OIL AND GAS LEASE	_
Tan 1911	2008
THIS AGREEMENT ("Lease") made this day of Jan var	2007
between John G Callanan and wife, Je Callanan as Lessor (whether one or more), whose address is 8204 Thornbush Dr. North Richland Hills, Texas 76.	180 and
Lessor in consideration of Ten and no/100 Dollars and Other Valuable Consideration (\$10.00 & O.V.C.) in hand paid, of the royalties provided and of the agreements of Lessoe herein contained hereby, grants, leaser and lots exclusively unto Lessee for the purpose of investigating, exprospecting, drilling and mining for and producing oil and gas, the following described land in Tarrant County, Texas, (herein referred to as the "Lease Premises "Land") to-wit	ploring.
See attached Exhibit "A" for I and Description	

This Lease also covers and includes all strips and gores, streets, easements, highways and alleyways, and other land and interest in land owned or claimed by Lessor adjacent or contiguous to the Land, whether the same be in said survey or surveys or in adjacent surveys. Lessor agrees to execute at Lessee's request any additional or supplemental instruments reasonably necessary for a more complete or accurate description of the Lease Premises. Furthermore, Lessor authorizes Lessee to complete the description of the Lease Premises by inserting, as appropriate, the applicable Survey, Abstract, City and Plat information in the description set forth in Exhibit "A," attached hereto. In the event Lessor owns any additional acreage than that for which bonus was originally paid, Lessee shall pay additional bonus at a rate per acre not less than the rate per acre on which bonus was originally paid when this Lease was acquired. For the purpose of determining the amount of any shut-in royalties hereunder, the number of gross acres specified on Exhibit "A" shall be deemed correct, whether actually more or less.

For purposes of this Lease, "oil and gas" means oil, gas and other liquid and gaseous hydrocarbons and their constituent elements produced through a well bore, "Oil" includes all condensate, distillate and other liquid and gaseous hydrocarbons produced through a well bore, "Gas" includes helium, carbon dioxide and other commercial gases, as well as hydrocarbon gases. Expressly excluded from this Lease are lignite, coal, sulfur and other like minerals.

- 2. Without reference to the commencement, prosecution or cessation at any time of drilling or other development operations, and/or to the discovery, development or cessation at any time of production of oil, gas or other minerals, and without further payments than the royalties herein provided, and notwithstanding anything else herein contained to the contrary, this Lease shall be for a term of Three (3) years from the date hereof (called "Primary Term") and as long thereafter as oil, gas or other substance covered hereby is produced in paying quantities from said Land or land pooled therewith hereunder, or as long as this Lease is continued in effect, as otherwise provided herein.
- 3. The royalties to be paid by Lessee are: (a) on oil, 22.50% of that produced and saved from said Land, the same to be delivered at the wells or to the credit of Lessor into the pipeline to which the wells may be connected; provided that Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefore prevailing for the field where produced on the date of purchase, and Lessee may sell any royalty oil in its possession and pay Lessor the price received by Lessee for such oil computed at the well: and (b) on gas, including casinghead gas or other gaseous substance, produced from the Land and sold or used off the Lease Premises or for the extraction of gasoline or other product therefrom, the market value at the well of 22.50% of the gas so sold or used, provided that on gas sold by Lessee the market value shall not exceed the amount received by Lessee for such gas computed at the mouth of the well, and on gas sold at the well the royalty shall be 22.50% of the amount realized by Lessee from such sale. If the price of any mineral or substance upon which royalty is payable hereunder is regulated by any governmental agency, the market value or market price of such mineral or substance for the purpose of computing toyalty hereunder shall not be in excess of the price which Lessee may receive and retain. Lessee shall have free from royalty or other payment the use of water, other than water from the Lessor's wells or tanks, and of oil and gas produced from the Lease Premises in all operations which Lessee may conduct hereunder, including water injection and secondary recovery operations, and the royalty on oil and gas shall be computed after deducting any so used. If Lessee drills a well on said Land or on land pooled therewith, which well is capable of producing oil or gas but such well is not being produced and this Lease is not being maintained otherwise as provided herein, this Lease shall not terminate, whether it be during or after the Primary Term, (unless released by Lessee) and it shall nevertheless be considered that oil and gas is being produced from the Lease Premises covered by this Lease when Lessee shall pay or tender (or make a bona fide attempt to pay or tender) as shut-improvalty to the parties who at the time of such payment would be entitled to receive royalty hereunder if the well was producing, or deposit to their credit in 

  Bank at 

  (which bank as agent or depository and its successors are royalty owner or owners' agent, and shall continue as depository for all such sums which Lessee may pay hereunder regardless of changes in ownership or royalties) the sum of Twenty-Five and no/100 Dollars (\$25.00) per acre for each calendar month, or portion thereafter during which said well is situated on the Lessee Premises, or on land pooled therewith, and this Lease is not otherwise maintained, or this Lease is not released by Lessee as to the land on which or the horizon, zone or formation in which the well is completed. The first

payment of such sum shall be made on or before the first day of each calendar month after expiration of ninety (90) days from the date the lease is not otherwise maintained for all accruals to such date, and thereafter on or before the first day of each third calendar month for all accruals to each such date to Lessor's designated depository bank or, if a depository is not designated above, then mailed on or before the duc date of payment to the parties entitled thereto at Lessor's address set forth above or to the last known address provided in writing to Lessor Notwithstanding anything to the contrary. Lessee may from time to time withhold and accumulate such payments payable to Lessor until the first of the calendar month following the accumulation of Twenty-Five and no/100 Dollars (\$25,00) when payment shall be made as above provided. Notwithstanding anything to the contrary herein, it is expressly understood and agreed that after the expiration of the primary term. Lessee shall not have the right to continue this Lease in force by payment of shut-in royalty for more than a single period of up to two (2) consecutive

- The cash down payment is consideration for this Lease according to its terms and shall not be allocated as rental for a period. Lessee may at any time, and from time to time, execute and deliver to Lessor, or to the depository bank, or file for record a release or releases of this Lease as to any part or all of said Land or of any mineral or subsurface interval or any depths thereunder and thereby be relieved of all obligations as to the released land, mineral, horizon, zone or formation. If this Lease is released as to all minerals, horizons, zones and formations under a portion of the Lease Premises, the shut-in royalty and other payments computed in accordance therewith shall thereupon be reduced in the proportion that the acreage released bears to the acreage which was covered by this Lease immediately prior to
- Lessec, at its option, is hereby given the right and power during or after the Primary Term while this Lease is in effect to pool or combine the Lease Premises as to oil, gas and other minerals, or any of them, with any other land covered by this Lease, and/or any other land, lease or leases in the immediate vicinity thereof, when in Lessee's judgment it is necessary or advisable to do so in order properly to explore, or to develop and operate the Lease Premises in compliance with the spacing rules of the Railroad Commission of Texas, or other lawful authority, or when to do so would, in the judgment of Lessee, promote the conservation of oil, gas or other mineral in and under and that may be produced from the Lease Premises; provided, however, that the entire Lease Premises covered by this Lease shall be included in any unit created pursuant to the pooling authority granted herein. Units pooled for oil shall not substantially exceed in area 40 acres each plus a tolerance of 10% thereof, and units pooled for gas hereunder shall not substantially exceed in area 160 acres each plus a tolerance of 10% thereof, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, units thereafter created may conform substantially in size with those prescribed or permitted by governmental regulations. Notwithstanding anything to the contrary stated herein, a unit for a horizontal well may include (i) the amount of acreage allowed for obtaining a permit to drill a well under the spacing and density provisions in the applicable field or statewide rules for a vertical wellbore, plus the additional acreage listed in the tables in the Railroad Commission of Texas Rule 86 (density greater than 40 acres), or (ii) the amount of acreage allowed for obtaining a full production allowable under the applicable field or statewide rules for a vertical wellbore, plus the additional acreage listed in the tables in the Railroad Commission of Texas Rule 86 (density greater than 40 acres). Lessee may pool or combine the Lease Premises or any portion thereof, as above provided as to oil in any one or more strata and as to gas in any one or more strata. Units formed by pooling as to any stratum or strata need not conform in size or area with units as to any other stratum or strata, and oil units need not conform as to area with gas units. Pooling in one or more instances shall not exhaust the rights of Lessee to pool this Lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the Lease Premises is situated an

instrument describing and designating the pooled acreage as a pooled unit, the unit shall become effective as provided in said instruments, or if said instrument makes no such provision, it shall become effective upon the date it is filed for record. Each unit shall be effective as to all parties herrot, their heirs, successors and assigns, irrespective of whether or not the unit is likewise effective as to all other owners of surface, mineral, royalty or other rights in land included in such unit. Lessee may at its efection exercise its pooling option as to oil, gas and other minerals before or after commencing operations for or completing an oil or gas well or wells or mine for other mineral in paying quantities has therefore been completed or upon which operations for drilling of a well or mine for oil, gas or other mineral in paying quantities has therefore been completed or upon which operations for drilling on a well or mine for oil, gas or other mineral have therefore been commenced. Operations for drilling on, or production of oil, gas or other mineral from any past of a pooled unit which includes all or a portion of the Lease Premises, regardless of whether such operations for drilling on or production of oil, gas or other mineral from the Lease Premises of which such operations for drilling on or production of oil, gas or other mineral from the Lease Premises whether or not the well or wells or mine be located on the Lease Premises, and the entire acreage constituting such unit or units, as to oil, gas or other minerals, or any of them, as herein provided, shall be treated for all purposes, except the payment of royalities on production from the pooled unit, as if the same were included in this Lease, provided that if after creation of a pooled unit, a well or mine drilled on the unit area, other than on the land covered hereby and included in the unit, which well is not classified as a gas well, or if a gas well on a gas unit, which includes all or a portion of the lease Premises in reclassified as a

- 6. If at the expiration of the Primary Term, oil, gas, or other mineral is not being produced on the Lease Premises, or from land pooled therewith, but Lessee is then engaged in drilling or reworking operations thereon, or shall have completed a dry hole thereon within 120 days prior to the end of the Primary Term, this Lease shall remain in force so long as operations on said well or for drilling or reworking of any additional well are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil, gas, or other mineral, so long thereafter as oil, gas, or other mineral is produced from the Lease Premises, or from land pooled therewith. If, after the expiration of the Primary Term of this Lease and after oil, gas or other mineral is produced from the Lease Premises, or from land pooled therewith, the production thereof should cease from any cause, this Lease shall not terminate if Lessee commences operations for drilling or reworking within 120 days after the cessation of such production, but shall remain in force and effect so long as Lessee continues drilling or reworking operations on said well or for drilling or reworking of any additional well with no cessation of more than 60 consecutive days, and if they result in the production of oil, gas, or other mineral, so long thereafter as oil, gas, or other mineral is produced from the Lease Premises, or from land pooled therewith. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within 660' feet of and draining the Lease Premises, or land pooled therewith, Lessee agrees to drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances.
- 7. The rights of either party hereunder may be assigned in whole or in part, and the provisions hereof shall extend to their heirs, successors and assigns; but no change or division in ownership of the land or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee, including, but not limited to, the location and drilling of wells and the measurement of production; and no change or division in such ownership shall be binding on Lessee until forty-five (45) days after Lessee shall have been furnished by registered U.S. mail at Lessee's principal place of business with a certified copy of recorded instrument or instruments evidencing same. In the event of assignment hereof in whole or in part, liability for breach of any obligation hereunder shall rest exclusively upon the owner of this Lease or of a portion thereof who commits such breach. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.
- 8. In the event Lessor considers that operations are not at any time being conducted in compliance with this Lease, Lessor shall notify Lessee in writing of the facts relied upon as constituting a breach hereof, and Lessee, if in default, shall have sixty (60) days after receipt of such notice in which to commence compliance with the obligations imposed by virtue of this Lease.
- 9. Lessor makes no warranty of any kind with respect to title to the surface or mineral estate in the leased premises or any portion of or interest therein. All warranties that might arise by common law or by statute, including but not limited to Section 5.023 of the Texas Property Code (or its successor), are excluded. By acceptance of this Lease, Lessee acknowledges that it has been given full opportunity to investigate and has conducted sufficient investigation to satisfy itself as to the title to the leased premises. Lessee assumes all risk of title failures.
- Should Lessee be prevented from complying with any express or implied covenant of this Lease, from conducting drilling or reworking operations thereon or on land pooled therewith or from producing oil, gas or other mineral therefrom or from land pooled therewith by reason of scarcity or of inability to obtain or to use equipment or material, or by operation of force majeure, any federal or state law or any order, rule or regulation of governmental authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended, and Lessee shall not be liable in damages for failure to comply therewith, and this Lease shall be extended while and so long as Lessee is prevented by any such cause from conducting drilling or reworking operations on or from producing oil, gas or other minerals from the Lease Premises or land pooled therewith, and the time while Lessee is so prevented shall not be counted against Lessee, anything in this Lease to the contrary notwithstanding.
- Surface Use Restriction: Notwithstanding anything to the contrary contained herein. Lessee agrees that it shall have no right to enter upon, cross over, place any building or structure upon, conduct operations upon, or otherwise use the surface of the Lease Premises to exercise any of the rights granted hereunder. Furthermore, Lessee shall not drill any wells or conduct any operations within six hundred (600) feet of the Lease Premises. Lessee shall only develop the Lease Premises by pooling, as provided herein, or by directional or horizontal drilling commenced from a surface location on other lands. This provision shall in no way restrict Lessee's exploration of or production from the Lease Premises by means of wells drilled on other lands but entering or bottomed on the Lease Premises. All directionally or horizontally drilled or operated under the Lease Premises with bottomhole locations (for vertical wells) or with horizontal drainhole locations (for horizontal wells) on the Lease Premises shall be regarded as if the wells were drilled on the Lease Premises. Lessee agrees that any drilling under the Lease Premises shall commence at and continue at depths below five hundred feet (500') from the surface of the earth. In addition to Lessee's other rights under this Lease, Lessor hereby grants to Lessee a subsurface easement to drill and operate directional and/or horizontal wells under and through the Lease Premises to reach lands not covered by this Lease and which wells have bottom hole locations (if a vertical well) or horizontal drainhole locations (if a horizontal well) on lands not covered by this Lease and which wells have bottom hole locations (if a vertical well) or horizontal drainhole locations (if a horizontal well) on lands not covered by this Lease and which wells have bottom hole locations (if a vertical well) or horizontal drainhole locations (if a horizontal well) or lands not covered by this Lease.
- Noise levels associated with Lessee's operations related to the drilling, completion and reworking of wells shall be kept to a reasonable minimum, taking into consideration reasonably available equipment and technology in the oil and gas industry, the level and nature of development and surface use elsewhere in the vicinity of Lessee's drill sites and the fact Lessee's operations are being conducted in or near an urban residential area. If Lessee utilizes any non-electric-powered equipment in its operations, Lessee shall take reasonable steps to muffle the sound therefrom by installing a noise suppression muffler or like equipment.
- 13. Lessee's obligations under this Lease, whether express or implied, shall be subject to all applicable laws, rules, regulations and orders of any governmental authority having jurisdiction, including environmental regulations, setback requirements, restrictions on the drilling and production of wells, and the price of oil, gas and other substances covered hereby. To the extent any such laws, rules, regulations or orders are less restrictive than the terms of this Lease, this Lease shall control.

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- Indemnity. Lessee hereby releases and discharges Lessor and the owner of the surface estate, along with their officers, employees, partners, agents, contractors, subcontractors, guests and invitees, and their respective heirs, successors and assigns (collectively the "Lessor Parties"), of and from all and any actions and causes of action of every nature, or other harm, including environmental harm, for which recovery of damages is sought, including, but not limited to, all losses and expenses which are caused by the activities of Lessee, its officers, employees and agents arising out of, incidental to or resulting from, the operations of or for Lessee on or under the leased premises or at the drill site or operations site or that may arise out of or be occasioned by Lessee's breach of any of the terms or provisions of this Lease, or by any other negligent or strictly liable act or omission of Lessee. Further, Lessee hereby agrees to be liable for, exonerate, indemnify, defend and hold harmless the Lessor Parties against any and all claims, liabilities, losses, damages, actions, property damage, personal injury (including death), costs and expenses, or other harm for which recovery of damages is sought, under any theory including tort, contract, statute or strict liability, including attorney fees and other legal expenses, including those related to environmental hazards on or under the leased premises or at the drill site or operations site or in any way related to Lessee's operations or any other of Lessee's activities in, on or under the leased premises or at the drill site or operations site or in any way related to Lessee's use of the surface or subsurface of the leased premises; and those that may arise out of or be occasioned by Lessee's breach of any of the terms or provisions of this Lease or any other of Lessee, its directors, officers, employees, partners, agents, contractors, subcontractors, guests, invitees and their respective successors and assigns. Each assignee of this Lease, or of an interest h
- Except as expressly provided above in Paragraph 3, Lessor's royalty may not be charged directly, or indirectly, with any of the expenses of production, gathering, dehydration, compression, processing, or treating the gas produced from the land that are incurred prior to the inlet of a gas pipeline evacuating gas from the Lesso Premises. After delivery at said inlet, Lessor's royalty shall bear its proportionate share of all costs and expenses, including transportation, to the point of sale.
- 16. Each singular pronoun herein shall include the plural whenever applicable. Lessor acknowledges and represents that (a) the Thornbridge Homeowners Association, Inc. and its officers and directors (collectively, "TH()A") have not acted as Lessor's agent in connection with this Lease; (b) Lessor, in making the decision to enter into this Lease, has not relied upon any statements or representations, if any, of the THOA regarding the terms of this Lease; and (c) Lessor's decision to enter into this Lease is the independent and voluntary decision of Lessor after heing given the opportunity to have said Lease reviewed by counsel of Lessor's choosing.
- 17. Upon the expiration of the primary term of this Lease, upon the expiration of any extension or renewal of the primary term, or after cessation of operations as provided herein, whichever occurs last, this Lease shall terminate as to all rights lying below one hundred feet (100°) below either (1) the deepest depth drilled in any well drilled on the Lease Premises or on lands pooled therewith or (2) the stratigraphic equivalent of the base of the deepest formation producing or capable of producing in any well drilled on the Lease Premises or on lands pooled therewith, whichever is the deepest.
- For convenience, this instrument may be executed in multiple counterparts and Lessor and Lessoe agree that for recording purposes their respective signature page and acknowledgments may be removed from their respective counterpart and attached to a single Oil, Gas and Mineral Lease and for all purposes and obligations hereunder this shall be considered as one single Oil, Gas and Mineral Lease.
- Lessor shall, upon the request of Lessee, use its best efforts in assisting Lessee in obtaining a subordination of Deed of Trust or similar security instrument that may affect the Lease Premises. Additionally, in the event Lessor receives a notice of default, acceleration of loan, or notice of sale under a Deed of Trust or other security instrument affecting the Lease Premises, Lessor shall immediately provide copies of any such notice, and all additional relevant facts, to Lessee. In this regard, Lessor shall comply with all reasonable requests of Lessee. The parties understand that if the Lease Premises is burdened by a lien, Lessor may be required to obtain written consent to enter this Lease and/or a subordination agreement from the lienholder. In the event Lessor incurs any expenses associated with preparing or executing documents confirming consent to this Lease or subordinating a lienholder's rights to this Lease, then Lessee will reimburse Lessor for all such expenses.

IN WITNESS WHEREOF, this instrument is executed on the date first above written.

(Individually and in all Capacities for the above described Land)

Printed Name: John G- Callapan

Title: LUSOY

(Individually and in all Capacities for the above described Land)

() --- 1 11

Printed Name: Offnn M. Collanall

Title: LUSSON

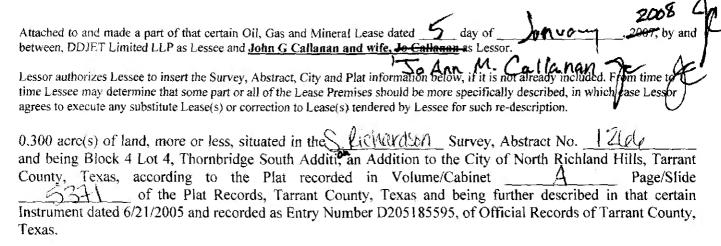
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### Individual Acknowledgment

STATE OF TEXAS §						
COUNTY OF Tarrant \$						
BEFORE ME, on this day personally appeared MN & Callan, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me have he/she executed the same for purposes and considerations therein expressed, and in the capacity therein stated.						
GIVEN UNDER MY HAND AND SE	AL OF OFFICE, this the					
	Notary Public in and for the State of Texas					
JASON K. CUNNINGHAM Notary Public, State of Texas My Commission Expires January 31, 2010	Print Name of Notory Hora					
SEAL:	My Commission Expires: Sanvary 31, 2016					
Indívidual Acknowledgment						
STATE OF TEXAS §						
COUNTY OF Thrant \$	\ 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1					
	ppeared					
GIVEN UNDER MY HAND AND SEAL OF OFFICE, this the day of						
JASON K. CUNNINGHAM Notary Public, State of Texas My Commission Expires January 31, 2010 SEAL:	Signature of Notary:  Signature of Notary:  Conningtion  (Print Name of Notary Here)  My Commission Expires:  My Commission Expires:  My Commission Expires:					
Corporate Acknowledgment						
STATE OF TEXAS §						
COUNTY OF §						
The foregoing instrument was acknown 2007, by	wledged before me, on this,					
(Name of officer)	of (Title of officer)					
(Name of corporation)	, a corporation,					
on behalf of said corporation.						
GIVEN UNDER MY HAND AND SEAL OF OFFICE, this the day and year last above written.						
	Notary Public in and for the State of Texas.					
	Signature of Notary:					
SEAL:	(Print Name of Notary Here) My Commission Expires:					

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# Exhibit "A" Land Description



After Recording Return to: HARDING COMPANY 13465 MIDWAY ROAD, STE. 400 DALLAS, TEXAS 75244 PHONE (214) 361-4292 FAX (214) 750-7351

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HARDING COMPANY 13465 MIDWAY RD #400

**DALLAS** 

TX 75244

Submitter: PETROCASA ENERGY-INC

SUZANNE HENDERSON TARRANT COUNTY CLERK TARRANT COUNTY COURTHOUSE 100 WEST WEATHERFORD FORT WORTH, TX 76196-0401

## <u>DO NOT DESTROY</u> WARNING - THIS IS PART OF THE OFFICIAL RECORD.

Filed For Registration: 05/15/2008 09:01 AM
Instrument #: D208180735
ISE 6 PGS \$32.00

By:

ANY PROVISION WHICH RESTRICTS THE SALE, RENTAL OR USE OF THE DESCRIBED REAL PROPERTY BECAUSE OF COLOR OR RACE IS INVALID AND UNENFORCEABLE UNDER FEDERAL LAW.

Printed by: CN

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